

## Chapter 3

# Developments in the Clearing and Settlement Industry

The RBA supervises and oversees licensed clearing and settlement facilities to ensure they conduct their affairs in a way that is consistent with financial system stability. Over the past year, the RBA updated the Financial Stability Standards applying to securities settlement facilities, and completed and published assessments of certain facilities. The RBA also worked with CFR agencies to reassess the costs and benefits of central clearing of bonds and repos, and supported regulatory reforms for financial market infrastructures.

### Clearing and settlement facilities operating in Australia

Clearing and settlement facilities (CS facilities) play a critical role in making financial transactions more efficient and in managing risk within the financial system. These facilities support the processing of transactions in securities such as bonds and equities, and in derivative instruments such as options and futures. There are two types of CS facility that operate in Australia:

- Central counterparties (CCPs) act as the buyer to every seller, and the seller to every buyer. As a consequence, the exposure of all parties is to the CCP, rather than between the counterparties to the original trade.

- Securities settlement facilities (SSFs) provide for the final settlement of securities transactions, and the maintenance of records of transfer of title. Settlement typically involves the transfer of the title to a security and transfer of cash between counterparties.

The Payments System Board has determined policies for the supervision and oversight of CS facilities in accordance with its powers under the *Reserve Bank Act 1959*. The RBA holds powers related to the supervision and oversight of CS facilities. This includes the power to determine financial stability standards for CS facility licensees and assessing how well licensees have complied with the standards and their obligation to do all other things necessary to reduce systemic risk. The RBA has determined two sets of Financial Stability Standards (FSS) – one for CCPs and one for SSFs. Day-to-day oversight and supervision is undertaken by the RBA's Payments Policy Department. In carrying out these activities, the RBA works closely with the Australian Securities and Investments Commission (ASIC), which has separate, but complementary, responsibilities for the supervision of CS facilities.

Table 3.1 provides an overview of the CS facilities most relevant to the Australian market, the products they clear or settle, and their home regulator.

**Table 3.1: Clearing and Settlement Facilities Most Relevant to the Australian Market**

Name	Products relevant to the Australian market <sup>(a)</sup>	Home jurisdiction (regulator)
<b>Central counterparties</b>		
ASX Clear <sup>(b)</sup>	Cash equities, debt products, warrants and equity-related derivatives traded on Australian exchanges or over-the-counter (OTC).	Australia (RBA/ASIC)
ASX Clear (Futures) <sup>(b)</sup>	Futures and options on interest rate, equity, energy and commodity products traded on the ASX 24 market, as well as AUD and New Zealand dollar-denominated OTC interest rate derivatives (IRDs).	Australia (RBA/ASIC)
LCH Ltd	SwapClear service: OTC IRDs and inflation rate derivatives.	United Kingdom (Bank of England)
Chicago Mercantile Exchange Inc. (CME)	IRS service: OTC IRDs, and non-AUD IRDs traded on the CME market or the Chicago Board of Trade. FEX service: Commodity, energy and environmental derivatives traded on the financial market operated by FEX Global Pty Ltd (FEX).	United States (Commodity Futures Trading Commission)
<b>Securities settlement facilities</b>		
Austraclear <sup>(b)</sup>	Debt securities, including government bonds, and repurchase agreements.	Australia (RBA/ASIC)
ASX Settlement <sup>(b)</sup>	Cash equities, debt products and warrants traded on Australian exchanges.	Australia (RBA/ASIC)
FinClear Pty Ltd (FCX)	Cash equities and trust vehicles traded on the FCX market.	Australia (RBA/ASIC)
Euroclear Bank SA/ NV <sup>(c)</sup>	Debt and equity securities, including government bonds, and repurchase agreements.	Belgium (National Bank of Belgium)
Clearstream Banking S.A. <sup>(c)</sup>	Debt and equity securities, including government bonds, and repurchase agreements.	Luxembourg (Banque Centrale du Luxembourg and Commission de Surveillance du Secteur Financier)

(a) Including service name if applicable (e.g. for overseas facilities that only provide some services relevant to the Australian market).

(b) ASX Group entities.

(c) Not licensed nor exempted in Australia as at 30 June 2024.

Source: RBA.

## Financial stability standards for securities settlement facilities

In June 2024, the RBA increased the settlement activity threshold under the Financial Stability Standards for Securities Settlement Facilities (SSF Standards) to achieve a better balance between the risks posed by small firms to financial stability and the regulatory burden imposed on them.<sup>1</sup> The SSF Standards will not apply to a CS facility licensee that settles less than \$40 billion of financial obligations

through the facility in a financial year; this threshold was previously \$200 million. The new threshold is equivalent to around 1 per cent of total annual settlement activity for Australian equity securities and less than 1 per cent of total annual settlement activity for Australian debt securities. To implement this change, the RBA revoked the existing SSF Standards and determined new SSF Standards in accordance with powers under the *Corporations Act 2001*.

---

## Supervisory lessons from the CHES replacement project

In April 2024, the Parliamentary Joint Committee on Corporations and Financial Services released a report into the ASX CHES Replacement Project.<sup>2</sup> The report included joint recommendations for the RBA and ASIC aimed at improving the regulatory supervision of critical financial services technology platforms such as CHES. The RBA and ASIC are developing a response plan to address the recommendations of the report and contributing to the government's response.

## Oversight of clearing and settlement facilities

The RBA seeks to align the intensity and scope of its oversight and assessment of CS facility licensees to be proportionate to their degree of systemic importance in the Australian financial system.<sup>3</sup> All CS facilities licensed to operate in Australia must meet the FSS unless otherwise exempt. They also must do all other things necessary to reduce systemic risk in Australia, to the extent that it is reasonably practicable to do so. Where a CS facility is based overseas, the RBA seeks to rely on supervision and assessments undertaken by the home regulator, where appropriate. The key developments from the past year are summarised below.

## Annual assessment of the ASX clearing and settlement facilities

The RBA's assessment of the ASX CS facilities as at 30 June 2024 concluded that ASX should place high priority on addressing recommendations related to the Operational Risk Financial Stability Standard.

The focus on operational risk should accompany ongoing efforts to improve ASX's governance arrangements and risk culture. The assessment also included a deep dive into ASX's compliance with the Segregation and Portability Financial Stability Standard and recommended that ASX benchmark its current arrangements against international best practice. The full assessment is published on the RBA website.<sup>4</sup>

## Assessment of LCH Ltd's SwapClear Service

In Australia, SwapClear is considered to be systemically important. It clears around 90 per cent of the cleared Australian dollar OTC IRD market. This market is used by banks and corporations to manage interest rate risk and to take speculative positions. It has six Australian direct participants, including the four major banks.

The RBA considers that the SwapClear service has been conducted in a way that is consistent with LCH's obligations to meet the FSS as at 30 June 2024. This assessment is based on the RBA's bilateral engagement with LCH, information from the Bank of England (LCH's home regulator), and LCH's progress towards meeting the RBA's regulatory priorities. Table 3.2 provides a summary of the RBA's regulatory priorities and areas of supervisory focus, with further details discussed below.

**Table 3.2: Regulatory Priorities and Areas of Supervisory Focus for LCH Ltd’s SwapClear Service**

Name	Description	Status	Relevant Financial Stability Standard(s)
<b>Regulatory priorities</b>			
Extension of operating hours	LCH should complete its work to extend the operating hours of the SwapClear service within the next year, while maintaining the resilience of its operations; it should keep the RBA informed of its progress. LCH's business developments should not negatively affect its work on operating hours.	closed	Margin (CCP Standard 6) Operational Risk (CCP Standard 16)
<b>Area of supervisory focus</b>			
Operational resilience and operational risk management	The RBA will monitor LCH's work to embed the lessons from operational outages experienced in January 2024 to strengthen its operational resilience and operational risk management. This includes its oversight of third-party providers and service support arrangements. The RBA will actively engage with the Bank of England and LCH on the progress of this work.	opened	Framework for the Comprehensive Management of Risks (CCP Standard 3) Operational Risk (CCP Standard 16)
Cyber risk management	The RBA will continue to monitor LCH's work to enhance its cyber risk management.	ongoing	Operational Risk (CCP Standard 16)

Source: RBA.

### Extension of operating hours

In August 2023, LCH extended SwapClear’s operating hours to fully cover the Australian business day. This completed a multi-year program of work, which was encouraged by the RBA. SwapClear now opens at 9:00 am Sydney time on a Monday morning, providing continuous trade acceptance and registration until the close of business in New York on Friday evening. This is a good outcome for Australian and Asia Pacific-based participants as they were previously required to manage bilateral credit exposures while the service was closed.

### Operational resilience and operational risk management

In January 2024, SwapClear experienced two operational incidents affecting its ability to register new trades. On 8 January, an issue with a network storage device prevented SwapClear from opening its service for around nine hours. On 18 January, an intermittent network issue led to delays in new trade registrations over a period of three hours.

Both were serious incidents, though the effects on LCH’s participants and its ability to manage risk were limited. Trades were queued while the service was unavailable and one intraday margin run was delayed for 40 minutes. There were no reports that either incident materially affected the functioning of the Australian dollar OTC IRD market. The RBA will be closely monitoring LCH’s response to ensure that it has appropriate support arrangements in place for Australian markets and participants, and that SwapClear continues to provide reliable clearing services. The RBA will also engage with the Bank of England on this issue.

### Cyber risk management

LCH has continued to refine its approach to cyber risk management and has also enhanced its cyber defence capabilities. LCH regularly engages independent experts to assess the effectiveness of its cyber controls and keeps the RBA informed of developments. The RBA will continue to monitor developments in this area.

---

## FinClear Pty Ltd

In September 2024, FinClear Pty Ltd (FCX) was granted a CS facility licence to operate an SSF for company securities and interests in managed investment schemes traded on the financial market operated by FCX. As FCX is expected to hold a small share of settlement activity in the Australian financial system and does not interoperate with another financial market, CS facility or payment system, it is unlikely to directly pose systemic risks to financial stability.<sup>5</sup>

## Central clearing of Australian bond and repo markets

There have been considerable changes in the size and structure of the Australian bond and repo markets in recent years. Recent analysis by RBA staff indicates that the potential benefits of central clearing in these markets has increased, and that the case for central clearing may be stronger than in the past.<sup>6</sup> In

response to this and renewed interest from Australian market participants, the RBA is working with other Council of Financial Regulators (CFR) agencies to reassess the costs and benefits of central clearing of bonds and repos in Australia.<sup>7</sup>

## Financial market infrastructure regulatory reforms

The RBA welcomes progress on a package of legislative reforms to modernise the regulatory framework of financial market infrastructures (FMIs) in Australia. The reforms will support the maintenance of financial stability in Australia by strengthening and streamlining powers for the licensing and supervision of FMIs and establishing a crisis management framework for CS facilities. The updated framework will enhance regulators' ability to monitor, manage and respond to threats to Australia's financial stability that may arise from clearing and settlement systems.

---

## Endnotes

- 1 RBA (2024), 'New Financial Stability Standards for Securities Settlement Facilities', Media Release No 2024-13, 20 June.
- 2 Parliamentary Joint Committee on Corporations and Financial Services (2024), 'Statutory Inquiry into ASIC, the Takeovers Panel, and the Corporations Legislation', Final Report, April.
- 3 RBA (2023), 'The Reserve Bank's Approach to Supervising and Assessing Clearing and Settlement Facility Licensees', December.
- 4 RBA (2024), 'Assessment of ASX Clearing and Settlement Facilities', Report, September.
- 5 RBA (2024), 'Assessment of FinClear Pty Ltd', Report, September.
- 6 Cheshire J and J Embry (2023), 'Reassessing the Costs and Benefits of Centrally Clearing the Australian Bond Market', *RBA Bulletin*, March.
- 7 CFR (2024), 'Reassessing the Case for Central Clearing of Bonds and Repos in Australia', Consultation Paper, July.